

ITEM NO.	SUBJECT	REF
	DC29 - ADJUSTMENTS BUDGET FOR MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK - 2021/2022 – 2023/2024	

REPORT TO: EXCO / COUNCIL

DATE: 25 FEBRUARY 2021

DIRECTORATE: FINANCE

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TABLE OF CONTENTS

1. Purpose
2. Deliberations
 - 2.1 Background and Discussion

PART 1 – ADJUSTMENTS BUDGET

- 1.1 Mayor’s Report
- 1.2 Resolutions
- 1.3 Executive summary
- 1.4 Adjustments Budget Tables

1.3 Executive Summary

Operating Revenue and Expenditure Framework Budget Summary

- Service Charges
- Interest Earned
 - External Investments
 - Outstanding Debtors
- Transfers Recognised- operational
- Agency Fees
- Other Own Revenue
- Employee Related Costs
- Remuneration of Councillors and Board Members
- Depreciation and Asset Impairment
- Finance Charges

- Bulk Purchases
- Repairs and Maintenance
- Contracted services
- Other Expenditure
- Debt Impairment
- Surplus/Deficit
- Capital Budget

PART 2 – SUPPORTING DOCUMENTATION

- 2.1.1** Adjustments to budget assumptions
- 2.1.2** Adjustments to budget funding
- 2.1.3** Adjustments to expenditure on allocations and grants programmes
- 2.1.4** Adjustments to allocations and grants made by the municipality
- 2.1.5** Adjustments to councillor allowances and employee benefits
- 2.1.6** Adjustments to Service Delivery and Budget Implementation Plan
- 2.1.7** Adjustments to Capital Expenditure
- 2.1.8** Other Supporting Documents
- 2.1.9** Mid – Year Budget Assessment – High Level Assessment
- 2.1.10** Municipal Manager’s quality certificate
- 3.** Consultations
- 4.** Strategic and Legal Implications
- 5.** Resolutions/ Recommendations

ATTACHMENTS

ANNEXURE A – NATIONAL TREASURY BUDGET TABLES - B SCHEDULES

ANNEXURE B – NATIONAL TREASURY BUDGET TABLES - E SCHEDULES

**ANNEXURE C– MID-YEAR BUDGET ASSESSMENT 2021/22 - HIGH LEVEL
ASSESSMENT**

ANNEXURE D- AUDIT ACTION PLAN 2020/2021

ANNEXURE E – MFMA BUDGET CIRCULAR 112 FOR DRAFT BUDGET 2022/23 MULTI YEAR

1. PURPOSE

To recommend to council approval in terms of section 28 of the Municipal Finance Management Act of 2003, of the 2021/2022 adjustment budget.

2. DELIBERATIONS

2.1 Background

Section 72(3) of the MFMA requires that the Accounting Officer must as part of the mid - year review make recommendations as to whether an adjustments budget is necessary and recommend revised projections for revenue and expenditure to the extent that this may be necessary. This adjustments is as a result of resolution taken on the meeting held on 27 January 2022.

PART 1 – ANNUAL BUDGET

1.1 MAYOR'S REPORT

The Municipal Finance Management Act, No. 56 of 2003 requires the assessment of the Mid-Term budget and performance of the district municipality and its entity of which should be complied with in January. During this assessment it was recommended that an adjustments budget is necessary due to matters identified during the mid-year assessment. This is no ordinary year, the country is currently dealing with the Coivid-19 pandemic, impact of which has resulted in all of us having to do business in a different manner. We have had to adapt to the new normal in way we deliver services and interact with the communities we serve. To this end the District Command Council plays an important role on providing guidance in respect of managing COVID-19.The District Development Model was also launched and remains active to actively take the process and concept forward to benefit all citizens within the District.

This adjustments budget aims to achieve the objectives as set out on the District's strategic focus in 5 key performance areas:

- Infrastructure and Basic Service delivery;
- Good Governance and Democracy;
- Socio Economic Development and Planning;
- Institutional Development and lastly
- Financial Viability and Management.

This Adjustments Budget is required to re-align and reprioritize expenditure and other service delivery programmes to ensure our objectives are met by the end of the financial year. This is the time where service delivery is of utmost importance and needs of the community are required to be balanced with limited and constrained resources. As government, we understand the economic situation which our communities are facing, the need to keep make a living while maintaining the high living cost. At the same time, we strive to provide the best and quality service for a better life for all, even though there are constraints from consumers in paying for services. We encourage consumers to get used to a culture of paying for services in order for provision of sustainable services.

Consumers are encouraged to apply for indigent relief should they find difficulty in meeting their payment obligations towards the Municipality. As a District, we strive to be efficient, effective and prudent in the manner in which we deal with the state and municipal resources. We continue taking serious the issues of Governance and service delivery, striving towards a clean administration and compliance with all applicable legislation.

We have in place an audit action plan which will be adopted by Council in together with this adjusted budget addressing matters raised in the 2020/21 audit, the reason to table the action plan is that the audit of Consolidated Annual Financial Statements was completed in January 30, 2022. The municipal structures in place entrusted with such oversight includes the audit committee, the risk management committee and all Council structures. The audit action plan tabled at Council is monitored on through the performance management system and the Management Committee to ensure that the findings are addressed and not repeated in the 2022/23 audit.

The main challenges experienced during the compilation of the 2021/2022 MTREF can be summarised as follows:

- The need to prioritise projects and expenditure within the existing resources envelope given the cash flow which is available;
- Ageing infrastructure, quality and quantity of drinkable water;
- The increased cost of bulk water which impacts tariffs charged ;
- Affordability of Capital Projects and funding thereof;
- Revenue growth patterns and collectability thereof which impacts on the funding and implementation of the budget;
- The current constraints within the Global, National and Local economies;
- The impact of Covid-19 on the functioning of the Municipality
- Availability of affordable capital or borrowings; and
- Rising and unpredictable fuel, oil and energy prices resulting in challenges on revenue recoveries.
- The global epidemic, coronavirus and its impact in the global community.
- The ability of consumer debtor to pay for services.
- Reduction in capital grants with regard to WSIG and RBIG to zero.
- Bulk tariff increases that impact water tariff set by the District.

The mid-term budget and performance assessment tabled in January 2022 at Council provided the financial status of operations within the municipality as well as its entity for the first six months. The outcome in the first half of the financial year was slightly below the desired outcome, however it showed a steady improvement on the revenue side as billing has started showing signs of increasing due to the conversion of prepaid to conventional metering system and the new connections. The collection rate also showed some signs of slow recovery due to the interventions adopted by Council including the debt write-off on those consumers that had a long outstanding balances and whom were analysed their financial affordability status. On the expenditure side major cost drivers such as bulk purchases and hire of plant and machinery is also increasing due to the demand of providing water to consumers. The cost of provision of water to schools to mitigate the scourge of Covid-19 also remains a priority, but so is the debt owed by the Department of Education for the provision of water schools.

As outlined in the mid-year budget assessment sound financial management should be promoted and practised on a daily basis. Furthermore Council and its administration is doing its best to better the lives of the people through prioritising service delivery regardless of the

current situation and putting in interventions to contain expenditure and deliver services within the adjusted budget.

The following were identified to be the main challenges or drivers resulting into a need to adjust the budget.

- Revenue growth patterns which impact on the implementation of the budget as expenditure further relies on what is collected at the end of the month.
- Shifting of funds from one vote to another in order to maintain the service delivery standards and eliminate significant under/over expenditure within and already constrained budget.
- The new allocation from KZN COGTA for the Water Intervention Projects which is meant to provide water and sanitation services to address the Provincial priorities determined in PDGS and Cabinet Resolution, which is to Rehabilitate Nsuze dam and Sidumbini Dam, Augmentation of Sokesimbone water supply scheme & construction of portion A of Driefontein water supply scheme;
- Rising costs of fuel, oil and electricity consumed by pumps and water schemes.

Although the collection rate has started to show some increase during the first half of the financial year whereby in December the municipality has achieved 61% collection rate, increased billing the actual increase in receipts is evident from intensified collection efforts and more areas being billed. Measures have been put in place to address the liquidity challenges encountered by the District Municipality through the Revenue Department:

- An appointment of a panel of finance service providers who is predominantly focus on the old debt and ensuring that the current accounts are paid.
- The decision to convert prepaid meters into conventional meters.
- Installation of new meters in areas where no metres were installed and extend meter reading to areas not being actually read.
- A need to analyse water bulk meters to bill large consumers effectively.
- Reduction of non –revenue water loses, reduce leaks a bill areas not being billed.

The municipality adopted the MFMA Circular 82 of March 2016 which relates to Cost Containment Measures that must be implemented to eliminate wasteful expenditure. The circular was revised in December 2021. Regulations on cost containment were also promulgated in July 2019 and Council subsequently updated its cost containment policy to align with the regulations. Reporting to Council takes place quarterly to indicate savings achieved.

The following measures were among those announced;

1. Curtailment of overseas trips;
2. Institutionalization of further restrictions on conferences, catering, entertainment and social functions;
3. Limitation on acquisition of official vehicles for Political Officer Bearers;
4. Travel and subsistence;
5. Domestic accommodation;
6. Sponsorships, events and catering;

All expenditure is kept to essential items required only for service delivery. In this light only essential and critical expenditure required is incurred.

Vuthela Programme

The Vuthela LED Program in partnership with Swiss Government is now in the implementation stage.

The Vuthela iLembe LED Programme aims to contribute to the improvement of the economic future of the iLembe District and the quality of life for its inhabitants, through sustainable growth of the local economy and the creation of higher, better and more inclusive employment and income generating opportunities.

As a District, we believe that creating sustainable partnerships will move our district forward. The Vuthela LED Program in partnership with Swiss Government is now in the implementation stage. The Vuthela iLembe LED Programme aims to contribute to the improvement of the economic future of the iLembe District and the quality of life of its inhabitants, through sustainable growth of the local economy and the creation of higher, better and more inclusive employment and income generating opportunities. In addition to initiatives by the Vuthela Program, the District has also been selected to participate in achieving cost reflect tariffs, an initiative by the Danish Embassy. This will be a pilot study involving the District which may be implemented in phases to lessen the impact of cost reflective tariffs on the consumer.

iLembe Business Incubator

District Wide Business Incubator Project

The business incubator continues to operate to assist local enterprises to obtain access to infrastructure, market, procurement opportunities and finance.

The incubator has been operational for almost three years and has since inception provided business support to approximately 200 local SMMEs providing several forms of business support such as training, mentorship, coaching, access to work space, networking, advisory services, formalization of informal businesses and access to other Enterprise development programmes.

The number of businesses enrolled at the Business Incubator has now grown from 57 to 83 all coming from the iLembe Family of Municipalities. These SMMEs are supported with the following:

Training and mentorship

Mentoring and Coaching

Access to finance or funding opportunities

Access to market and opportunities

Technical support

Access to office space with high-tech computer equipment, printers, receptionist services and infrastructure.

There has been a substantial number of positive achievements over the past three years in achieving the ultimate goal of creating sustainable businesses and eventually creating sustainable employment.

- Mandeni Youth Enterprise Park

Mandeni YEP construction progress report is as follows;

- Site Establishment - 100% complete
- Bulk earthworks – 100% complete
- Kerbs – 100% complete
- G5 Layer works – 100% complete
- Stormwater pipes – 100% complete
- New sewer lines – 100% complete
- New water lines – 100% complete
- Paving – 98% in progress
- Concrete Stub base – 100% complete
- Blue stone – 0% not yet commenced
- Fencing – 98% in progress

- Containers on site – 50% in progress
- Container fabrication – 50% in progress

- KwaShuShu Hotsprings & Ntunjambili Mountain Tourism Projects

A full Feasibility, Concept & Business Plan for the KwaShuShu Hotspring and Ntunjambili Mountain Project in Maphumulo was developed and finalised in 2020. Project concept includes the establishment of tourism facilities at these project sites including basic infrastructure, adventure activities and attractions and accommodation facilities.

Enterprise iLembe made an application to the Department of Economic Development, Tourism & Environmental Affairs (EDTEA) for funding to commence with implementation of the first phase of the development of the project.

Status as at 31 December 2021

- Funding approval received in August 2021
- Funding Agreement signed in October 2021
- Implementation Plan submitted in November 2021/Revised submitted in December 2021
- Funding received in December 2021
- SCM processes to commence in January 2021.

- iLembe Business Incubator

The business incubator continues to operate to assist local enterprises to obtain access to infrastructure, market, procurement opportunities and finance.

The incubator has been operational for almost three years and has since inception provided business support to approximately 200 local SMMEs providing several forms of business support such as training, mentorship, coaching, access to work space, networking, advisory services, formalization of informal businesses and access to other Enterprise development programmes.

The number of businesses enrolled at the Business Incubator has now grown from 57 to 83 all coming from the iLembe Family of Municipalities. These SMMEs are supported with the following:

Training and mentorship

Mentoring and Coaching

Access to finance or funding opportunities

Access to market and opportunities

Technical support

Access to office space with high-tech computer equipment, printers, receptionist services and infrastructure.

There has been a substantial number of positive achievements over the past three years in achieving the ultimate goal of creating sustainable businesses and eventually creating sustainable employment.

- COVID-19 Economic Recovery Plan

The implementation of the Covid-19 District Economic Recovery Plan is ongoing through the local economic development programs and interventions and includes farmer support for access to markets, small business support and tourism marketing and promotions to ensure recovery of the tourism sector.

To date assisted a large number of small enterprises operating in different sectors have been assisted by the Entity to access COVID-19 funding relief schemes, market linkages and the provision of alternative markets.

- Enterprise iLembe entered into strategic partnerships with private sector companies to find mechanisms to assist SMMEs with access to funding and market, where AVON Peaking Power provided grant funding of about R120 000 each to 15 SMMEs through their enterprise and supplier development initiative.
- Over 578 informal traders have been assisted with access to funding through the informal traders funding relief scheme administered by the Department of Small Business Development and its agencies (SEDA and SEFA).
- Operation vula fund - iLembe District SMMEs benefitted over R20mil in direct funding for capacity building programmes focusing on 3 components:
 - o Compliance
 - o Packaging of funding applications
 - o Verification of business existence

Tourism & Investment

Efforts by the Entity to market and promote the district as a tourism, business and investment destination is ongoing, these sectors being hardest hit by the Covid-19 Pandemic and lockdown. Digital platforms have been prioritized to ensure the the region remains top of mind.

Other projects under the Entity includes:

- Agricultural Processing - Tunnels
- ILembe Vineyards & Winery, including the newly launched Seventeen, Wine Cellar and Tasting Room
- Biomass Project
- Public Wifi
- RASET

Recommendation that municipal council approve the adjustments

All adjustments on the adjustment budget are in line with Section 28(2) of the MFMA which states that an Adjustments Budget;

- Revises the approved annual budget by adjusting revenue and expenditure estimates downwards if there's material under-collection of revenue during the current year;
- May appropriate additional revenues that have become available over and above those anticipated in the annual budget in order to accelerate spending programmes already budget for;
- May within a prescribed framework authorise unforeseeable and unavoidable expenditure recommended by the Mayor of the District;
- May authorise the utilisation of projected savings in one vote towards spending under another vote;
- May authorise the spending of unspent funds at the end of the past financial year where under-spending could not have been reasonably foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the Council of the District;
- May correct errors in the annual budget and
- May provide for any other expenditure within a prescribed framework

In this context, it is recommended that Council consider and approves the adjustment budget. It is also recommended that the Council approves the revised service delivery targets and performance indicators as disclosed in the Service Delivery and Budget Implementation Plan and any other information relevant to the overall performance of the District as envisaged in the Municipal Finance Management Act of 2003 and other applicable legislation.

I thank you.

1.2 RESOLUTIONS

RESOLVE TO RECOMMEND THAT

1.2.1 That the 2021/2022 consolidated adjustments budget on table B1 to B10 as per the Municipal Budget & Reporting Regulations and its supporting documentation be approved and adopted.

Table B1- Adjustment Budget Summary

Table B2- Adjustment Budget Financial Performance (standard classification)

Table B3- Adjustment Budget Financial Performance (revenue and expenditure by municipal vote)

Table B4- Adjustment Budget Financial Performance (revenue and expenditure)

Table B5- Adjustment Capital Expenditure Budget by vote and funding

Table B6- Adjustment Budget Financial Position

Table B7- Budget Cash Flows

Table B8- Cash backed reserves/ accumulated surplus reconciliation

Table B9- Asset Management

Table B10- Basic service delivery measurement

1.2.2 That the Mid-Year Budget Assessment, High Level Assessment by the KwaZulu natal provincial Treasury dated be noted.

1.2.3 It be noted that the adjustments budget is being tabled by the Mayor in terms of section 28 (2) (a) (b) and (d), as well as section 28 (4) of the MFMA.

1.2.4 It be noted that the adjustments budget is fully compliant with section 28 (6) of the MFMA in that municipal tax and tariffs will not increase as a result of the adjustments budget.

1.2.5 The monthly and quarterly service delivery targets and performance indicators in the service delivery and budget implementation plan be revised according to the tabled adjustments budget.

1.2.6 Upon approval of the adjustments budget, Manager Budgets & Compliance ensures that, in terms of section 22 (b) of the MFMA, the adjustments budget is submitted in both printed and electronic formats to the National Treasury and Provincial Treasury.

1.2.7 Upon approval of the adjustments budget, Director Corporate Services ensures that, in terms of section 75 (1)(a) of the MFMA, the adjustments budget is published in the municipal website, and made public.

1.2.8 That the Council adopt the Audit Action Plan for the 2020/2021.

1.3 EXECUTIVE SUMMARY

In terms of section 28 (4) of the MFMA, the mayor of the District must table an adjustment budget in the municipal Council accompanied by explanations on how the adjustment budget affects the annual budget, provide supporting documentation and motivates for any material changes to the annual budget. Paragraph (6) of that section however, forbid the Mayor to adjust tariffs and taxes except where required in terms of Cost containment measures.

The district's business and service delivery priorities were reviewed as part of this year's planning and budget process. Funds are mainly prioritised for operational costs and maintaining low- to high-priority programmes so as retain sound financial stewardship.

The Mid-Year Budget and Performance Assessment report was conducted and presented by the Accounting Officer to the Mayor of the District, who then submitted the performance assessment report to Council for consideration at the end of January 2021 and to the National Treasury and the relevant Provincial Treasury in line with section 54(1) (f) of the MFMA.

Council resolved that a consolidated adjusted budget process should be initiated and tabled for the year 2021/2022 financial year for both iLembe District and its entity. The adjustments budget is hereby prepared and table in accordance with Council's resolution.

During the approval of the 2021/22 MTREF the following were highlighted and identified as some of the constraints which may impede the implementation of the budget.

- The increased cost of bulk water which is pushing the tariffs upwards;
- The downturn in the National and Local economy;
- Ageing infrastructure, quality and quantity of drinkable water;
- The need to re-prioritise projects and expenditure within the existing resources envelope given the cash flow realities while maintaining a good level of service;
- Affordability of Capital Projects;
- Revenue growth patterns which impacts on the implementation of the budget.
- Availability of affordable capital or borrowings; and
- Rising and unpredictable fuel, oil and energy prices resulting in challenges on revenue recoveries.
- The need to fill vacant posts to eliminate inefficiencies and improve delivery of services.

The main areas that affected how the approved budget was structured

- ✓ The affordability of the cost-reflective tariff per kilo litre calculation (cost based tariffs) which is not passed on to the consumers;
- ✓ Review of revenue generation calculation projections to ensure that all contributing factors are taken into account;
- ✓ Proposal of 5% tariff increase in consideration of the new valuation roll that has been approved recently by KwaDukuza Local Municipality;
- ✓ The increase in the tariff of charges of 5%, is also applicable to the new valuation roll that was received from KwaDukuza Local Municipality on 13TH May 2021. KwaDukuza Municipality is implementing a new valuation roll with effect 01 July 2021. The last valuation roll was done in 2015 and expires in June 2021. The valuation roll obtained from Kwadukuza Local Municipality, may still have objections to be finalised. The average increase from the 2015 to 2021 is 26% on domestic sanitation in the Kwa Dukuza Municipal area. In order to make sanitation charges affordable to consumers a methodology was used to cap the increase in the valuation at 10% instead of the actual valuation used for billing property rates by Kwa Dukuza Municipality. Further assumptions were then made to allow for the finalisation of the objection process, errors between old and new valuation roll and billing which need to be reconciled to the final valuation roll once received.
- ✓ Furthermore, a reduction of various variable operating expenditure items was kept at a minimum to match with the low tariff increase of 5 % and the consumer price index as per the National Treasury's MFMA budget Circular.
- ✓ The ceasing of the Regional Bulk Infrastructure Grant allocation which impacts on the continuation of the projects already in implementation.
- ✓ The process of the security contract currently impacted by the ongoing court case.

The first half of the financial year had its own successes, from increase on billing to unqualified audit opinion, however there were various challenges encountered as well, amongst others includes:

- Steady growth on revenue growth collection which impacts on the implementation of the budget as expenditure further relies on what is collected throughout the financial year.
- Sustainability of the consumer water meters to consumption and billing of consumers.
- Impact on implementation of capital projects funded by conditional grants, mainly MIG, and WSIG, where these grants were recorded as unspent on 30 June 2021 and was approved for a roll over in the current financial year. However some other grants like EEDSMG, Specialised Fire Vehicle grant were paid back to the funder.

- The impact on budget on multi-year funded projects will be adjusted as a result of variance between planning cashflow projections versus and implementation cashflow.
- Delays in the implementation of projects arising from various project management, and contractual challenges; and
- Increase on consumer debtors arising from increased billing due to new connections and prepaid meters which have been converted to conversional meters;
- An increase in the supply of water through water tankers above appropriated budget mainly due to the areas that do not have water reticulation stand pipes, the delay in finalising the lower Tugela bulk pipe in order to provide more water to the community. Furthermore, the municipality has acquired seven water tankers in the 2020/21 financial year.

The aforementioned challenges are reviewed from time to time through deliberations at various structures and strategies are in place to deal with same. Implementation is monitored at the various council portfolio committees.

OPERATING BUDGET SUMMARY

The operating budget summary provides information on both income and expenditure activities in line with the approved budget and the proposed adjustment budget for the year under- review and the following will discussed:

DC29 iLembe - Table B4 Consolidated Adjustments Budget Financial Performance (revenue and expenditure) -								Budget Year	Budget Year
Description	Ref	Current year budget 2021/2022						+1 2022/23	+1 2023/24
		Original Budget	YTD	Proposed Budget 2 (10% cut)	Adjusting amount	1%	Adjusted Budget	Adjusted Budget	Adjusted Budget
		3	A1	5	7	9	10		
R thousands	1	A	A1	C	E	G	H		
Revenue By Source									
Property rates	2	-	-	-	-	-	-	-	-
Service charges - electricity revenue	2	-	-	-	-	-	-	-	-
Service charges - water revenue	2	197 880	100 377	209 259	11 379	6%	209 259	207 774	218 162
Service charges - sanitation revenue	2	62 798	33 502	67 211	4 413	7%	67 211	65 938	70 553
Service charges - refuse revenue	2	-	-	-	-	-	-	-	-
Rental of facilities and equipment		671		6	(666)	-99%	6	738	812
Interest earned - external investments		12 372	5 557	12 372	-	0%	12 372	13 230	13 400
Interest earned - outstanding debtors		39 582	6 260	20 520	(19 062)	-48%	20 520	41 561	43 640
Dividends received		-	-	-	-	-	-	-	-
Fines, penalties and forfeits		135	38	132	(3)	-2%	132	142	149
Licences and permits		12	11	23	10	83%	23	13	14
Agency services		2 256	991	1 982	(274)	-12%	1 982	2 414	2 583
Transfers and subsidies		635 194	455 335	662 264	27 070	4%	662 264	685 761	706 585
Other revenue	2	8 826	2 127	7 879	(947)	-11%	7 879	9 265	9 908
Gains		84 063	75	123 056	38 994	46%	123 056	89 947	96 243
Total Revenue (excluding capital transfers and contributions)		1 043 790	604 274	1 104 703	60 914	-25%	1 104 703	1 116 783	1 162 049
Expenditure By Type									
Employee related costs		270 730	128 071	265 099	(5 631)	-2%	265 099	286 955	305 131
Remuneration of councillors		10 474	4 188	11 166	693	7%	11 166	11 155	11 880
Debt impairment		19 216		19 456	241	1%	19 456	20 561	22 000
Depreciation & asset impairment		116 457	55 596	116 357	(100)	0%	116 357	121 731	127 208
Finance charges		6 875	4 036	5 423	(1 452)	-21%	5 423	3 799	7 779
Bulk purchases - electricity		-	-	-	-	-	-	-	-
Other materials		212 828	4 406	254 984	42 156	20%	254 984	227 396	242 971
Contracted services		142 353	59 824	177 894	35 541	25%	177 894	147 698	151 299
Transfers and subsidies		-	-	-	-	-	-	-	-
Other expenditure		127 793	64 903	138 238	10 445	8%	138 238	132 987	140 916
Losses		123 015	629	112 710	(10 305)	-8%	112 710	114 404	106 396
Total Expenditure		1 029 740	321 654	1 101 328	71 588	0	1 101 328	1 066 686	1 115 581
Surplus/(Deficit)		14 049	282 620	3 375	(10 674)	(0)	3 375	50 097	46 468
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)		236 859	57 590	246 771	9 912	4%	246 771	267 865	276 765
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)		2 273	2 634	2 273	-	0%	2 273	2 387	2 554
Transfers and subsidies - capital (in-kind - all)		-	-	-	-	-	-	-	-
Surplus/(Deficit) before taxation		253 182	342 844	252 420	(762)	(0)	252 420	320 350	325 788
Taxation		-	-	-	-	-	-	-	-
Surplus/(Deficit) after taxation		253 182	342 844	252 420	(762)	(0)	252 420	320 350	325 788
Attributable to minorities		-	-	-	-	-	-	-	-
Surplus/(Deficit) attributable to municipality		253 182	342 844	252 420	(762)	(0)	252 420	320 350	325 788
Share of surplus/ (deficit) of associate		-	-	-	-	-	-	-	-
Surplus/ (Deficit) for the year		253 182	342 844	252 420	(762)	(0)	252 420	320 350	325 788

Approved overall Budget

The overall approved operational revenue budget in the 2021/22 amounts was R 1.04 billion and the operational expenditure amounting to R 1.02 billion. Operations were thereby budgeted to achieve a net surplus of R 14.0 million for 2021/22; R 50.0 million and R 46.4 million for 2022/23 and 2023/24 respectively.

Adjustments overall Budget

The overall budget has been adjusted to R 1.2 billion (Revenue), and R 1.1 billion (expenditure) respectively. Operations were thereby adjusted to a net surplus of R5.6 million for 2021/22; R 50.0 million and R 46.4 million for 2022/23 and 2023/24 respectively. The total surplus including capital transfers and contributions for 2021/2022 as approved amounted to R 253.1 million; and the adjusted budget is now R254.6 million.

OPERATING REVENUE FRAMEWORK

The following budget principles and guidelines directly informed the compilation of the 2021/2022 MTREF:

- As a base, for incremental budget items, the 2020/2021 adjustment budget estimates and targets, as well as the base line allocations contained in that adjustment budget were adopted as the upper limits for the new baseline for the 2021/2022 budget then incorporating the tariffs and rates where applicable.
- Service level standards were used to inform the measurable performance objectives, targets and backlog eradication;
- That tariff increases must be affordable and be measured against the cost of bulk water. It must be noted however that the proposed tariff is aligned to the bulk water tariff, which assists in bringing water into the final consumer but has not been aligned to cost reflectiveness. Although tariffs need to remain or move towards being cost reflective a balance should be created for affordable services to consumers at the same it should take into account the need to address infrastructure backlogs and maintenance thereof; and
- That all grant funded projects will only be implemented provided that a written confirmation in the form of Division of Revenue Act (“DORA”) or otherwise is available and gazetted.
- The District will primarily make use of conventional metering system, and maintains the fact that some areas still utilise the prepaid meters which are replaced as they turn faulty.

Operating Income

a) Service Charges Revenue – Water

This budget relates to billing of consumers for water. The budget on water service charges was approved at amounts to a net of R 197.9 million (2020/21: R184.5 million), however this has been adjusted up to R 209.2 million. The 6% increase is as a result of an improved water billing as reported during the mid-year budget review.

This improvement was achieved through a continuous exercise of consumer database cleansing and conversion of prepaid meters to conventional. Furthermore, there are new connections that were done during the first six months. As per mid - year budget assessment, the total number of new connections had amounted to 688+.

The municipality has budgeted to provide free basic services for the 2021/2022 financial year. The number of people accessing this service has increased as compared to prior years due to increase on unemployment equity as a result of COVID-19 pandemic. There are processes currently done under the Vuthela Programme is in progress, this will allow aligning the Local Municipality's indigent registers with the districts' register.

It should be noted that B Schedule produced by Caseware Financial System is not pulling free basic water as it supposed to be. The amount indicated as water before free basic is the net amount (R209m) then deduct the free basic again which net it off to R207 million. The system is supposed to pull R210 million before the free basic is actually applied. This variance will then affect the total revenue and both operating surplus and overall surplus reported in B Schedule.

b) Service Charges Revenue - Sanitation

The sewer service charges was initially approved at R 62.7 million but has now been increased to R 67.2 million by 7% when compared to approved budget.

The 7% increase is as attributable to the year to date billing which was 7% above target in the first six months.

During the approval of the budget the following was highlighted that National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring

the financial sustainability of the municipality. The Consumer Price Index (CPI) inflation is forecasted to be within the upper limit of the 3.9 per cent target band; therefore, municipalities are required to justify all increases in excess of the projected inflation target for 2021/22 in their budget narratives, and pay careful attention to the differential incidence of tariff increases across all consumer groups. In addition, municipalities should include details of their revenue growth assumptions for the different service charges in the budget narrative.

Furthermore, it must also be noted that the consumer price index “CPI”, ***is not a good measure of the cost increases of goods and services relevant to municipalities.*** The basket of goods and services utilised for the calculation of the CPI consists of items such as food, petrol, and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of water and electricity, plumbing/construction material, chemicals etc.

The current challenge facing the District is to manage the gap between cost drivers and tariffs levied. Any shortfall must be made up by either operational efficiencies or service level reductions and maintenance of infrastructure. It should be noted that electricity costs contribute significant portion of waste water treatment input costs, therefore higher than the CPI.

c) Rental of facilities and equipment

This item relates to hiring of the District’s Auditorium to the public and the rental on tunnels for the Local Economic Development. The municipal entity engage companies utilising their tunnels and it receives rental fees. The total provision on this item was approved at a consolidated R671 thousand, and it has now been adjusted to R 5 694 thousand. This has been reduced to the fact that when approving the budget in May 2021, the Entity has entered into a contract with DeCaJu Agricultural Ventures in December 2019, for the leasing of five tunnels over a period of three years, ending in November 2022. In June 2021, DeCaJu sent an email withdrawing from the contract with immediate effect. A formal letter was subsequently received.

DeCaJu currently owes the Entity an amount of R902 750.00 and a letter of demand was sent in this regard, no correspondence has been received in this regard. The legal panel has been engaged for quotations on the recovery of this debt. This has resulted to the budget to be adjusted to zero. The Ilembe District Municipality is currently renovating the Auditorium. The auditorium is currently utilised for Council meeting and municipal activities, however with these in person activities the COVID rules are strictly considered.

The adjustment is attributable to the mid-year collection which was resulted from iLembe Entity and no collection at IDM.

d) Interest Earned on external Investments

Interest on investments were approved at R 12.3 million (2020/21 R 14.7m). This refers to the combination of monies invested by the municipality as well as its entity on various financial institutions both on call and fixed investments deposit accounts as well as interest on outstanding debtors. The interest has not been adjusted from the approved budget to R 12.3 million.

However this item had an actual to date of R5.5 million which was below anticipated by 11%, variance is due to variable interest rate upon investing, which is affected by the National Economy due to COVID-19 pandemic. The interest was attributable to the MIG, EEDSMG and WSIG and other grants received in the current financial year which are invested. The grants that remained unspent at end of 30 June 2021 were paid back to the funder which is the EEDSMG Specialised Fire Vehicle.

e) Interest earned on outstanding debtors

Interest on outstanding debt was approved R 39.5 million (R 37.6 million: 2020/21). The proposed budget is R20.5 million with a decreases of R 19.0 million. Interest on outstanding debtors is directly linked to the debtors' book. During the mid-year budget assessment the debt book had decreased due to interest for two months that has been waived to all consumers.

It should be stressed that, the current financial distress facing the country has negatively affected the level of collecting revenue. In October 2021 Council resolved to write off R70 million which relates to old debt. This write off will had a minor adjustment to consumer debtors and as a result the interest has been adjusted downwards to match the level of debt.

f) Fines and Penalties

Fines and penalties is an item related to compliance / non-compliance, for example illegal connections, tampering fees. The provision on this item was R 135 thousand as per approved budget. This item will be adjusted down by 2% to R132 thousand considering the half year performance. This item is in line aligned to the enforcement of the credit control policy.

g) Agency Services

Revenue from agency budget amounts to R1.9 million. This category of item is in relation to fees collected from concession fees (Siza Water). The adjustment made arise from the fact that when approving the budget this amount had incorrectly included VAT whereas it is not supposed to. The approved budget was R2.2 million adjusted by 12%.

h) Transfers Recognised – Operational

The transfers' recognised Operational was budgeted at R 635.1 million (2020/21: R720.9m), but has been adjusted up by 4% (R 27.1 million) to R 662.2 million. The budget on this item is in line with the Division of Revenue Act, Gazette of 2021 and the KZN Provincial Circular Gazette issued in December 2021 and is constituted by the adjustments as follows including the approved rollover. There is no new allocation on both MIG and WSIG however the increase is due to the decrease on capital allocation. The reason for the decrease is the capital projects that were affected by decrease were that there will be delays in terms of challenges in place which are discussed in various Council structures including ITPC (Infrastructure Technical Portfolio Committee) in order to mitigate those challenges, however the budget was then moved to operational projects in order to avoid unspent allocation.

- MIG operational R24.2million
- WSIG R14.5 million
- EEDSMG R3 million
- RAMS R2.3 million
- EPWP R6.3 million
- Equitable share R600.2 million
- FMG R1million
- EDTEA R2.5 million (New allocation)
- IDC R5 million (New allocation)
- Water Projects Intervention R25 million (New allocation)
- Small Town formalization R1.0 million (rollover)
- UIF grant R29 thousand (roll over)

i) Other Revenue

This category includes various revenue items that were initially budgeted to a total of R 8.8 million (2020/21: R 9.1m), but has been adjusted downwards to R 7.8 million. Other revenue increased by 11%.

The decrease is mainly attributable to a decrease of Clearance certificate, Sale of Tender Documents which indicated a decreased in the first six months and there is no anticipation on the advertising of new tender documents that can have a huge impact on this item to make an increase on actual collection. During the mid-year assessment, a variance of 51% below target for this item was realised.

Other items which had contributed to the adjustments included revenue from

- Sale of tender documents
- Clearance certificates and
- Handling fees.

j) Gains

System input: water treatment is the water that is extracted from the river by the municipality. This water is purified through purification process, then stored in the storage tanks which results to an increase in water stock and eventually an increase to water issued by the municipality to the community. This is disclosed as Gains in the Statement of Financial Performance which has been measured at the lowest of purified cost and net realisable value insofar as it is stored and controlled in reservoirs at year-end with an approved budget of R84.0 million. This will result to an increase in the Statement of Financial Position (Inventory). Upon the analysis of water purified as at December 2021 which indicated an increase when compared to previous year 2020 which was used to compile the original budget 2022. This budget has increased to R123 million.

l) Private Developer's Contribution

This item relates to the contribution that will be made by the Developers in relation to capital projects implemented in iLembe jurisdiction. This item was previously reported under other income whereby these will need to be ring-fenced. This item is disclosed as Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions) amounts to R2.3 million. This budget has not adjusted considering that the actual to date for the first six months the actual billing was R2.3 million and the municipality do not anticipate to bill any of the private developers in the current financial year.

OPERATING EXPENDITURE FRAMEWORK

In preparation of the 2021/22 – 2023/24 MTREF, the following were considered:

- Balanced budget constraints which means that operating expenditure should not exceed operating revenue unless there are existing uncommitted cash-backed reserves to fund any shortfall or deficit;
- Funding of the budget over the medium-term as informed by section 18 and 19 of the MFMA;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services;
- Strict adherence to the principle of “no project plans no budget”. If there is no business plan thus no funding allocation can be made;
- The implementation of austerity measures on municipal operational expenditure; and
- There are limited number of items in the budget, the budget was partly based from the adjustments budget amounts by effecting the CPI where applicable.
- Increase in the Umgeni Water tariff, currently being 5%
 - The increase in the tariff of charges of 5%, is also applicable to the new valuation roll that was received from KwaDukuza Local Municipality on 13TH May 2021. KwaDukuza Municipality is implementing a new valuation roll with effect 01 July 2021. The last valuation roll was done in 2015 and expires in June 2021. The valuation roll obtained from Kwadukuza Local Municipality, may still have objections to be finalised. The average increase from the 2015 to 2021 is 26% on domestic sanitation in the Kwa Dukuza Municipal area. In order to make sanitation charges affordable to consumers a methodology was used to cap the increase in the valuation at 10% instead of the actual valuation used for billing property rates by Kwa Dukuza Municipality. Further assumptions were then made to allow for the finalisation of the objection process, errors between old and new valuation roll and billing which need to be reconciled to the final valuation roll once received.
- The high cost of fuel due to the municipal fleet acquired in the 2019/20 financial year.

The summary of the adjustments to the adjustments budget:

When compared to the overall, total approved budget of R 1.0 billion, the increase on operational expenditure budget by R71.5 on an adjusted budget of R1.1 billion. The main contributors to this adjustment are;

- The main contributing item on Inventory Consumed is Water Issues, increased by R43.7 million to an adjusted figure of R 243.9 million;
- Contracted services, mainly on the hire of water tankers, Water Conservation Demand, Maintenance of charges- leases increase by R 35.5 million
- VIP toilet project, with an additional expenditure R 24 million funded from both WSIG and MIG original has a budget of R14.3 million.
- Water tanker hiring increase from R4m to R13.5m due to the fact that the water tankers bought by IDM break most of the time and they will be taken to repairs and the municipality will need to hire a water tankers in order to ensure that the service delivery does not get affected.

a) Employee related cost

This item relates to employee related costs booked in for the district and its entity. The consolidated employee related cost was originally budgeted at R 270.7 million but has now been adjusted down by R 5.3 million to R 265.1 million (2021: R 262.4 million).

The adjustment is mainly attributable from the original budget that was based on the 6.5% salary increment whereby during that period SALGA and municipal unions were still discussing the salary increment which was then finalised and agreed that the salary increment will be 3.5%, the vacant posts arising from terminations, and those which were anticipated to be filled in the beginning of the financial year which at time they have not been filled, they will however be filled before end of the financial year.

The municipality resolve as one of the ways to improve the cash flow status to prioritise compliance and vacant posts as this has an implication on the viability and performance of the municipality.

b) Remuneration of councillors.

This item relates to remuneration of Councillors, and was approved at R11.2 million (2021: R 10.5million), the budget has been adjusted up by R693 thousand. The increase is due to the increase in the number of Councillors the municipality is having compared to the previous year. Every year between December and January, a gazette on Determination of Upper Limits is issued as a guide on the increment of government officials. In the current year, the

gazette has not yet been finalised, but has been indicated that it will be issued in March, in the interim, the budget is adjusted with a slight allowance should there should be an increment to councillors' allowances.

c) Repairs and Maintenance (including Other Materials)

This item refers to the costs incurred to bring an asset back to an earlier condition or to keep the asset operating at its present condition. Repairs and maintenance were budgeted at R 64.8 million, the budget has been adjusted upwards to R 72.4 million. This item is separated into planned/ scheduled maintenance and unplanned maintenance. In terms of Municipal Budgeting and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver, but an outcome of other expenditures such as remuneration, purchases of materials and contracted services. As a result other material have been adjusted to R6.9 million. This amount is budgeted for materials used on repairs of the pipe work for both water and sewer. An amount of R58.6 million is allocated for the repairs and maintenance under contracted services including the maintenance of hubs. Other portion for the repairs and maintenance is budgeted for under Other Expenditure amount of R6.9 million.

The district is aware of the need to budget for repairs and maintenance according to the acceptable National Treasury guidelines of 8% of the total PPE and the need to restore infrastructure. The provision is currently below norm, being 3%. Considering the aforementioned financial challenges, hence only R 72.4 million could be afforded on the operational budget, however when the capital expenditure on renewal of existing assets is considered the percentage comes to R13.8 million whereby the replacement/refurbishment costs are to replace/refurbish aged pipelines and pumps. Table B9, the budget provision for the renewal of assets may seem low compared to that required on MFMA circular No. 55, however the capital budget also addresses the refurbishment of old water infrastructure.

d) Debt Impairment

The approved budget provision for doubtful debts was R 19.2 million, the budget has however been adjusted by R241 thousand. During the month of October 2021 the Council has approved a debt write-off for an amount of R70 million vat inclusive. This has been taken into account when preparing this adjusted budget. The Municipal Revenue Expect upon analysing the debtors book and recommended a debt off and also to change the estimate on the provision for the doubtful debts. Whilst this expenditure is a non-cash flow item, it informs the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenue. This is in compliance with GRAP

requirements. The bad debt provision has been calculated based on the 50% revenue collection rate year to date in August 2021 which is lower compared to the approved estimate of 60%. Council has been contributing to bad debt provision over the last 2 years without writing off any debt. A portion of bad debt to the value of R 61 million vat exclusive has been written off by Council in October 2021.

e) Depreciation & Asset Impairment

The provision for depreciation, amortisation and asset impairment was budgeted at R116.4 million but had been adjusted by R100 and informed by the Fixed Asset Policy of the District plus the additional projects to be completed in the 2021/22 budget. The provision on this item is as per the implementation of GRAP 17 accounting standard which must be complied with. It should also be noted that this item is a provisional amount, the actual depreciation and impairment is fully determined at year end.

f) Finance Charges

Finance charges consists primarily the repayment of interest on long-term borrowings and interest related to the fleet contract that has been acquired through an instalment lease agreement sale and accounted as finance leases as per GRAP standards.

The interest was approved at R 6.8 million (2021: R 7.8 million) but has however decreased to R 5.4 million, the decrease is attributable from the lower interest rate due to National Lockdown; and also that some of municipal fleet that was acquired in 2019/20 will expire in December 2022. The municipality will be budgeting for the new fleet during the Draft Budget 2022/23.

g) Other Material (Inventory Consumed)

Included in this item is water issued and material issued. It should be noted that the mSCOA NT mapping used is the latest version 6.5 including the previous year and current budget year.

The budget for bulk purchases under B6 as System Input amounts to R242.7 million during the original budget, however the amount of water that has been purchased as at December 2021 was R110 million, whereby the budget for the system input was then adjusted to R232.7 million. As indicated under gains above that budget for the water purified is adjusted to R123m million, the amount anticipated as water issued has increased to R243.9 million from R200.1 million that was originally budget. The reason for this increase is that the budget for the water loss has been decreased by 2% (to be discussed below on losses).

It was started during the approved budget process that the increase on bulk purchases is attributable to the tariff increase of 5% from Umngeni Water which had an impact in the cost of bulk water supply, particularly the purchasing of water from Umngeni Water is escalating beyond affordability, however this increase was lower when compared with 2020/2021 whereby it was 9%. With this high bulk purchases, the municipality is expected to maintain the balance between affordability municipal services while it keeps the tariff cost reflective in order to ensure that there is sustainability.

The municipalities have to adopt a tariff setting methodology that achieves an appropriate balance between the interests of poor households and other customers while ensuring financial sustainability of the municipality. It should be noted that the municipality does not break even with such high tariff increases, however it contains the burden not to be passed on to consumer considering the subdued economic situation in the country.

During the mid-year budget assessment, the actual expenditure was sitting at R 110 million (December 2021 – R 115.6 million), resulting in a 45% variance below anticipated half year expenditure (R121 million). It should be noted that item is the main cost driver on provision water. The main attributable to a high expenditure on this item includes various factors such as -;

- Increase in new connections and the cost of providing water supply to consumers.
- Indirectly, water losses have an impact on this item. The municipality faces a high level of non-revenue water and real losses currently sitting at 55% and 47% respectively. There is currently a project dedicated to reduce water losses, improve service delivery and eradicate services backlogs increasing revenue while decreasing the extent of the Non-Revenue water. The total budget allocated to Water Conservation and Demand Management amounts to R 9.7 million where various activities will be performed. A 5 year- Master Plan has been drafted for this programme.
- The Macambini and Ndulinde water supply projects were commissioned in the last financial year, however the forms for the registration into the municipal billing has reached the municipality in the current financial year. However it has been identified that since these are the RDP houses, there is no much that the municipality will be collecting in terms of revenue collection.

Capital Unit Charges

In the 2018/19 financial year iLembe District Municipality resolved to commence with repayments towards the capital unit charges towards the Spring Grove Dam and budget provision was accordingly made. The agreement between the Municipality and Umngeni is awaiting the outcome of the Department of water and sanitation. During 2019/20 the matter was concluded the repayments will be commenced with for a period of 12 years as per the signed agreement. This long-term liability is indicated into the non-current liability. The municipality is paying an amount of R543 thousand towards this liability per month. The balance to date is shown under both current and non-current liability.

h) Contracted Services

This item refers to contracted services was appropriated at R 142.3 million, however this has increased to R 177.9 million. The main items contributing to this increase are as follows:

- An increase to Water Conservation Demand by R4.7 due to shifting of funds from capital projects that are not performing well during this financial year;
- VIP toilets, an amount of R2.9 million has shifted from WSIG capital projects to provide VIP toilets in Ndwedwe area. The funds were shifted because there were delays in these projects hence the number of households to benefit from VIP sanitation has been increased.
- VIP toilets funded by MIG was originally budgeted for R14.3 million. During the finalisation of this budget (ORGB) the beneficiary list was not finalised, however during this financial year the list was finalised whereby a need to increase this budget was identified by looking at the projects that might not spent their full budget at the end of this financial year.
- Maintenance of charges- leases has increased by R7.6 million to R16.1 million. This budget is used for the preventative maintenance of the municipal fleet.
- There are also new allocation as indicated in Transfers and Subsidies- Operational above for the EDTEA for the Kwashushu Projects an amount of R2.5 million (vat incl) as there is an existing camp site but it does not have drinkable water and electricity, therefore this grant is meant to address that.
- The IDC grant amount of R5 million (vat incl) is also a new allocation which will assist the businesses with the community of iLembe whom they were affected by the riot.

These items include expenditure on hiring of water tankers. The projected full year expenditure on hired water tankers is around +/- R 25 million. This expenditure is mainly due to the following:

- Majority of the water tankers are old, and high on maintenance, as a result it drove cost of service high.
- There were many water outages and leaks experienced in the first half of the financial year and this resulted the demand for water through water tankers rose.
- The Umvoti water scheme which supply water in the areas of KwaDukuza has been experiencing challenges, and this called for more water supply through water tankers.
- Water tankers were originally budgeted for R4 million, however this was increased to R13.5million due to that the municipality has acquired water tankers in the last financial year, however the need to increase this budget was identified as these water tankers are not fit to be driven in some areas within Ilembe District Municipality which results to have more breakdown.

All existing contracts have been provided for on the budget. Table SB1 provides a list of all contracted services i.e. security services, plant hire, vehicle hire, printing rentals, etc. This refers to all contracted services to other parties that provide services on behalf of the district and its entity. Furthermore this category includes contracted services for handling repairs and maintenance.

It should be noted again that the contracted services reported in annexure A (B schedule produced by Caseware) is also not pulling through which means the data string and B schedule will have the difference.

i) Other Expenditure

The approved budget allocation for other expenses amounts to R 127.8 million but has now been adjusted up to a net of R 138.2 million. The adjustment is mainly attributable to the following items:

- Electricity for the pump stations and reservoirs by R3.1 million, Electricity usage during the first six months indicates an increase in consumption costs.
- Fuel and oil by R7.1 million dues to increase in fuel price considering another anticipated petrol hike in March 2022, there may be other increases in the remaining months of the year.

- Insurance premium has increased by R1.7million as the contract for the previous service provider came to an end. The municipality went out on tender whereby the rates were different compared to the previous service provider.

j) Losses

This item relates to the Water losses incurred through overflows of reservoirs, repairs of burst pipes, metering inaccuracies, service connection leaks and illegal connections. This item was originally budgeted for R123 million which was based on the audited AFS 2020, however during 2020/21 financial year water losses were reduced through the implementation of Water Conservation Demand by 2% (2020:59.75%, 2021:48.87%). The water losses for the financial year 2021 was R111.7 million which was used as base to calculate the estimated water loss for the 2021/2022 financial year. Therefore the water loss was estimated to be R109 million. Together in this item is the estimated losses on the disposal of fixed assets which was derived by analysis made on fixed asset in consideration of the fixed asset policy, the budget is R3.2 million.

k) Surplus/Deficit

The adjusted budget shows a consolidated surplus of R 3.3 million. Furthermore, the operational expenditure includes non-cash items to the amount of R 248.5 million, which leaves an operational surplus of R 128.8 million when these items are added back. The non-cash items pertain to:

- Gains on Revenue amount to R123 million;
- Depreciation and asset impairment - R 116.3 million
- Debt Impairment – R 19 million
- Losses – R112.7 million

Although this may seem to be available surplus it does not consider creditors from prior year, but will however cater to funding internally generated capital budget.

It must be noted that, the surplus do not resolve the cashflow and liquidity position challenges that the municipality is currently facing. Although there has been an improvement from the past two years since the municipality went through the financial constraint. Caution should be exercised and Council should continue to striving for an increase in the operating surplus to ensure financial and service delivery sustainability.

CAPITAL BUDGET

Capital Expenditure Details

The initially approved consolidated capital budget was R 235.5 million in the 2021/22 financial year; R 238.2 million and R 316.3 million for 2022/23 and 2023/24 respectively (excluding VAT) representing all categories identified as priority areas for capital expenditure during the review of the 2019-2023 IDP.

The Total capital adjusted budget for the entire MTREF is adjusted to be **R 804.3 million**.

DC29 iLembe - Table B5 Consolidated Adjustments Capital Expenditure Budget by vote and funding -									
Description	Ref	Current year 2021/2022					Budget Year +1 2022/2023	Budget Year +1 2023/2024	
		Original Budget	Proposed Budget	Adjusted amount	%	Adjusted Budget	Adjusted Budget	Adjusted Budget	
		9	10	11	12				
R thousands		A	E	F	G	H			
Capital Expenditure - Functional									
Governance and administration		15 871	14 756	(1 115)	(0)	14 756	5 220	75 541	
Executive and council					-	-			
Finance and administration		15 871	14 756	(1 115)	-7%	14 756	5 220	75 541	
Internal audit					-	-			
Community and public safety		-	36	36	-	36	-	-	
Community and social services			36	36		36			
Sport and recreation					-	-			
Public safety					-	-			
Housing					-	-			
Health					-	-			
Economic and environmental services		2 750	8 325	5 575	0	8 325	150	150	
Planning and development		2 750	8 325	5 575	203%	8 325	150	150	
Road transport					-	-			
Environmental protection					-	-			
Trading services		216 764	226 580	9 816	0	226 580	232 926	240 665	
Energy sources					-	-			
Water management		142 943	151 019	8 076	6%	151 019	140 976	133 415	
Waste water management		73 821	75 561	1 740	2%	75 561	91 950	107 250	
Waste management					-	-			
Other					-	-			
Total Capital Expenditure - Functional	3	235 386	249 697	14 311	0	249 697	238 296	316 356	
Funded by:									
National Government		205 964	191 570	(14 395)	-7%	191 570	232 926	240 665	
Provincial Government			23 014	23 014		23 014			
District Municipality					-	-			
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)					-	-			
Transfers recognised - capital	4	205 964	214 584	8 619	(0)	214 584	232 926	240 665	
Borrowing					-	-		70 000	
Internally generated funds		29 421	35 113	5 692	0	35 113	5 370	5 691	
Total Capital Funding		235 386	249 697	14 311	0	249 697	238 296	316 356	

The consolidated capital budget was approved at R 235.4 million but during the mid-year budget and performance assessment it was recommended to do an adjusted budget due to a receipt of allocation of the Water Intervention Projects amount to R25 million vat inclusive. The current adjustment budget processes resulted on an upward adjusted budget amounting to R 249.7 million.

The main adjustments are attributable to the following:

- The new allocation from KZN COGTA for the Water Intervention Projects which is meant to provide water and sanitation services to address the Provincial priorities determined in PDGS and Cabinet Resolution, which is to Rehabilitate Nsuze dam and Sidumbini Dam, Augmentation of Sokesimbone water supply scheme & construction of portion A of Driefontein water supply scheme;

The capital expenditure is mainly funded through grants, at main, which focuses on the expansion and refurbishment of infrastructure in order to ensure the District is able to deliver services in a timely manner while creating job opportunities. An amount of R226.6 of the capital budget is set aside for service delivery objective under trading services. Governance and Admin has been allocated R14.7 million of the total capital budgets and R8.3 million to cater for the LED projects. It should be noted however that majority of these infrastructure projects are multi-year.

Trading Services Projects are divided into the following categories:

Water Services

A total of R 142.9 million was submitted as an initial approved budget, however this has increased to R 151.0 million mainly due to additional projects to be funded internally amounting R9.5 million and the appropriation of the Water Intervention grant of R21.7 million. Table B9 in budget schedules breaks down expenditure into refurbishment of the existing assets and new assets. All local municipal areas will benefit from this provision.

Water Waste Management

A total of R 73.8 million was approved by Council, however this has now been adjusted down to R 75.5 million. This item is been provided on the capital budget to refurbish the existing assets as well as construction of new waste water assets. As the old infrastructure ages, there is a demand for provision of more funding to renew the infrastructure in ensuring continued service delivery. This is done through repairs under operational budget and refurbishment through the capital budget. The adjustment is mainly due to the shifting of the grant from capital to operation, to the value of R2.1 million to top up the VIP toilets on the income and expenditure. Internally funded projects amount to R3.7 million.

A detailed breakdown of capital projects could be viewed on SB19.

Capital Budget Funding

National Grant Funding

Total grant allocation on the Division of Revenue Allocation for the 2021/22 MTREF capital projects amounts to R 191.5 million. The allocation provided in the remains a multiyear project.

- Municipal Infrastructure Grant R 156.4 million;
- Water Service Infrastructure Grant R35.1 million,

Provincial Grant Funding:

- Water Intervention Grant R21.7

Grant rollover:

- YEP grant R1.2 million for the Containers

Internally generated Funding

The projects on this funding amounts to R 35.1 million, budget as previously mentioned in order to ensure the budget is funded while also ensuring sustained service delivery. The increase is attributable to the projects that were not acquired in the last financial year, however they were delivered at the beginning of the current financial year. The projects are as follows:

- Pump Replacement
- 3 Ton truck
- TLB
- Maphumulo Zone A
- Wosiyane water scheme rehabilitation
- Bulk Sewer Chris Hani
- Airconditioners
- ICT projects
- Office renovations

Borrowings

In this current financial year the municipality has not budgeted for any additional borrowings other than the existing borrowings indicated on B6 and B7.

TOTAL EXPENDITURE BUDGET

The Total Expenditure for 2022 is as follows:

R 'MILLION	APPROVED BUDGET	ADJUSTED BUDGET
OPERATIONAL EXPENDITURE	1,029,740	1,101,328
CAPITAL EXPENDITURE	235,386	249,296
TOTAL BUDGET	1,265,126	1,350,624

The District's consolidated expenditure budget was approved at R 1.2 billion in the 2021/22 budget year, however this has been adjusted up to R1.3 billion.

PART 2 – SUPPORTING DOCUMENTS

2.1.1 Adjustments to Budget Assumptions

In the compilation of the adjustments, the MFMA does not allow revision of municipal tariffs during the year, however assumptions can be revised. The following is a list of assumption including revision where relevant:

- Normal inflationary increases and pressures - **remains as per approved, expect adjustment for expenditure pressures**
- That the budget is zero based, incremental and programme based; **remains as per approved**
- Inflation is 4.1 % for the 2021/22, 4.4% and 4.5% for 2022/23 and 2023/2024 respectively – remains as per approved
- An estimated average for salary increase of 6.5% as per the Salary and Wage Collective Agreement – which has been changed as the conclusion of the salary negotiations were finalised in September 2021, the increment was revised to 3.5%.
- That there will be no changes to the powers and functions of the District during 2021/2022 financial year; - **remains as per approved**
- That more than 60 % of revenue budgeted for will be collected; - **Remains as per approved,**
- That all DORA allocations will be received during the 2021/2022 budget year.
- Increase to Tariff of charges for water and sewer of 5% and 5% for all tariff of charges.
- The increase in the tariff of charges of 5%, is also applicable to the new valuation roll that was received from KwaDukuza Local Municipality on 13TH May 2021. KwaDukuza Municipality is implementing a new valuation roll with effect 01 July 2021. The last valuation roll was done in 2015 and expires in June 2021. The valuation roll obtained from Kwadukuza Local Municipality, may still have objections to be finalised. The average increase from the 2015 to 2021 is 26% on domestic sanitation in the Kwa Dukuza Municipal area. In order to make sanitation charges affordable to consumers a methodology was used to cap the increase in the valuation at 10% instead of the actual valuation used for billing property rates by Kwa Dukuza Municipality. Further assumptions were then made to allow for the finalisation of the objection process, errors between old and new valuation roll and billing which need to be reconciled to the final valuation roll once received- remain unchanged

- That the cost containment measures implementation will still be in operation in the medium term – **Remains as per approved.**
- An annual tariff increase of 5% from Umgeni Water – **Remains as per approved,** bulk.

2.1.2 Overview of Budget Funding

The budget is funded out of a number of revenue sources, which includes grants, water and sanitation service charges, investment income and other miscellaneous revenue. This can be viewed in more detail on table B4.

Section 17 and 18 of the MFMA legislates how a municipal budget should be funded. Additionally, MFMA Circular 42 – Funding a Municipal budget requires an alignment of the budget and cash backed reserves/ accumulated surplus to ensure that the budget is appropriately funded.

It should be noted that the District highly reliant on grants funding. The capital budget will be funded through three funding sources:

- Own Funding – Council
- Grant Funding (National and Provincial)
- Borrowings

Funding of the tabled budget has considered the requirements of section 18 of the MFMA Act no. 53 of 2003. The capital budget is however not funded through the cash backed reserves.

The revenue generation projection was re-calculated using the 5% increase on tariffs and the actual service charges revenue as at 31 December 2021 which was the latest actual revenue in the current financial year prior to the adjusted budget preparation process.

The progress on improving the cash position was positively fair, as planned in the past two years, however considering that the budget was being trimmed as year proceed it requires that more and stricter measures are implemented to curb unnecessary expenditure. Such measures should be applied across all types of expenditure, relevant to this is the recent cost containment regulations gazetted by National Treasury which should be enforced in all spheres of government. Nevertheless, based on the NT B schedule tables, the District's

budget is appears funded. Further details can also be viewed from Table B8 and supporting Table SB15 wherein it shows a positive cash R 382.2 million.

As a measure to the severe cash strain, the municipality will continue to implement its Revenue enhancement strategy in place to improve the revenue collection. The approved budget collection rate assumption of 65% has not been revised as a basis for calculation of the funding measurement. This assumption is aligned to the current strategies in place and decisions taken to align such, to mention a few:

- Relations with department of education regarding schools and offices high in debt.
- Targeting residential debt and areas that were previously not receiving water.
- Adjusting of consumer accounts in areas that do not consistently get water supply.
- Expenditure and revenue management meetings taking place.
- Implementation of an action plan.
- Council assistance and support

Cash Flow

DC29 iLembe - Table B7 Adjustments Budget Cash Flows -

Description	Ref	Budget Year 2021/22									Budget Year	Budget Year
		Original Budget	Prior Adjusted	Accum. Funds	Multi-year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget	+1 2022/23	+2 2023/24
		A	3 A1	4 B	5 C	6 D	7 E	8 F	9 G	10 H	Adjusted Budget	Adjusted Budget
R thousands												
CASH FLOW FROM OPERATING ACTIVITIES												
Receipts												
Property rates		-										
Service charges		372 855						(110 031)	(110 031)	262 824	340 286	335 283
Other revenue		131 984						(16 173)	(16 173)	115 811	132 972	151 026
Transfers and Subsidies - Operational	1	635 194					36 054	36 817	72 871	708 065	685 761	706 585
Transfers and Subsidies - Capital	1	236 859					8 446	-	8 446	245 305	267 865	276 765
Interest		12 372								12 372	13 230	13 400
Dividends		-								-	-	-
Payments												
Suppliers and employees		(828 715)						(22 758)	(22 758)	(851 473)	(877 936)	(944 329)
Finance charges		(7 633)						-	-	(7 633)	(4 097)	(7 471)
Transfers and Grants	1	-						(36 817)	(36 817)	(36 817)	-	-
NET CASH FROM/(USED) OPERATING ACTIVITIES		552 916	-	-	-	-	44 500	(148 963)	(104 463)	448 454	558 082	531 259
CASH FLOWS FROM INVESTING ACTIVITIES												
Receipts												
Proceeds on disposal of PPE		-										
Decrease (increase) in non-current receivables		-										
Decrease (increase) in non-current investments		-										
Payments												
Capital assets		(228 109)						(17 370)	(17 370)	(245 479)	(240 311)	(318 371)
NET CASH FROM/(USED) INVESTING ACTIVITIES		(228 109)	-	-	-	-	-	(17 370)	(17 370)	(245 479)	(240 311)	(318 371)
CASH FLOWS FROM FINANCING ACTIVITIES												
Receipts												
Short term loans		-										
Borrowing long term/refinancing		-										
Increase (decrease) in consumer deposits		-										
Payments												
Repayment of borrowing		(19 108)						(6 157)	(6 157)	(25 265)	(25 678)	(6 766)
NET CASH FROM/(USED) FINANCING ACTIVITIES		(19 108)	-	-	-	-	-	(6 157)	(6 157)	(25 265)	(25 678)	(6 766)
NET INCREASE/ (DECREASE) IN CASH HELD		305 699	-	-	-	-	44 500	(172 489)	(127 989)	177 710	292 093	206 123
Cash/cash equivalents at the year begin:	2	155 433						49 103	49 103	204 536	461 132	753 225
Cash/cash equivalents at the year end:	2	461 132					44 500	(123 387)	(78 887)	382 245	753 225	959 348

The tabled budget year end cash balance is estimated at R 382.4 million by year ending 30 June 2022. This has been revised down when compared to the original budget cash estimate of R 461.1 million. As mentioned above, the current cash further cashflow analysis could be obtained from table B7. With all assumptions above and analysis made from the current financial year and the audited outcome, the draft budget is funded, however there is an extreme pressure to the funding position, care should be the pattern of expenditure, and should be monitored closely to control expenditure and eliminate spending on non- priority programmes. Furthermore, attention should be given to capital expenditure in order to avoid forfeiture of municipal grants should funds remain unspent at the end of the financial year.

The main items to be considered during the adjustments budget with direct impact on the cash flow are as follows:

- The repayment of the DBSA long terms loan. This will impact on borrowings.
- Repayment of Capital Unit Charges amount of R543 thousand per month.
- Repayment of leased vehicles acquired through a municipal lease.
- Payment of suppliers for capital project which are funded by the grants in the current financial year.

Service charges have been calculated using 60% collection on consumer debtors plus sale of prepaid water amount to R7.7 million. An amount of R255 million is the collection from consumer debtors calculated based on the 60% collection on billing. It should be noted that the debtors has decreased after the debt write-off done in October 2021. The balance after write off was estimated to be collected.

A decrease on non-current receivables under cash from investing activities is related to the staff bursary obligation opening balance. This is the error on the LG portal. This amount should not be included in the cash flow statement as the cash flow only take into account the movements made in the bank.

An increase in consumer deposits is related to the opening balance on consumer deposits, this amount again should not be included in the cash flow statement.

Therefore the cash and cash equivalent at the end of June 2022 (B7) does not balance to cash and cash equivalent reported in the Statement of Financial Position (B6), the different is:

- Decrease on non-current receivable R288 1102
- Increase in consumer deposit R95 998

When preparing the Annual Financial Statement the closing balance as per the cash book will be adjusted in the AFS by the reconciling items, therefore Cash and Cash Equivalent at the beginning will be driven by the cash book when preparing the adjusted budget. There is no tool in place at the moment which addresses this cash in the budget financial system that will address reconciling items.

2.1.3 Adjustments to Expenditure on allocations and grant programmes

DC29 iLembe - Supporting Table SB8 Adjustments Budget - expenditure on transfers and grant programme - 25/02/2022										
Description	Ref	Budget Year 2021/22						Budget Year +1	Budget Year +2	
		Original Budget	Prior Adjusted	Multi-year capital	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	
		A	2 A1	3 B	4 C	5 D	6 E	7 F		
R thousands										
EXPENDITURE ON TRANSFERS AND GRANT PROGRAM:	1									
Operating expenditure of Transfers and Grants										
National Government:		635 194	-	-	16 554	-	16 554	651 748	685 761	706 585
Local Government Equitable Share		600 260					-	600 260	648 716	668 071
Energy Efficiency and Demand Side Management Grant		3 000					-	3 000	-	-
Expanded Public Works Programme Integrated Grant		6 363					-	6 363	-	-
Local Government Financial Management Grant		1 000					-	1 000	1 000	1 000
Municipal Infrastructure Grant		16 500			7 731		7 731	24 231	27 859	29 325
Water Services Infrastructure Grant		5 750			8 823		8 823	14 573	5 750	5 750
Neighbourhood Development Partnership Grant		-					-	-	-	-
Public Transport Network Grant		-					-	-	-	-
Rural Road Asset Management Systems Grant		2 321					-	2 321	2 436	2 439
Other		-					-	-	-	-
Provincial Government:		-	-	-	7 500	-	7 500	7 500	-	-
Infrastructure		-					-	-	-	-
Capacity Building and Other		-			7 500		7 500	7 500	-	-
Other		-					-	-	-	-
District Municipality:		-	-	-	-	-	-	-	-	-
Infrastructure		-					-	-	-	-
Capacity Building and Other		-					-	-	-	-
Other		-					-	-	-	-
Other grant providers:		-	-	-	-	-	-	-	-	-
Departmental Agencies and Accounts		-					-	-	-	-
Higher Educational Institutions		-					-	-	-	-
Parent Municipality		-					-	-	-	-
Other		-					-	-	-	-
Total operating expenditure of Transfers and Grants:		635 194	-	-	24 054	-	24 054	659 248	685 761	706 585
Capital expenditure of Transfers and Grants										
National Government:		236 859	-	-	(16 554)	-	(16 554)	220 305	267 865	276 765
Energy Efficiency and Demand Side Management Grant		-					-	-	-	-
Municipal Infrastructure Grant (MIG)		-					-	-	-	-
Local Government Financial Management Grant		-					-	-	-	-
Municipal Disaster Relief Grant		-					-	-	-	-
Municipal Systems Improvement Grant		-					-	-	-	-
Municipal Disaster Recovery Grant		-					-	-	-	-
Municipal Demarcation Transition Grant		-					-	-	-	-
Integrated City Development Grant		-					-	-	-	-
Municipal Infrastructure Grant		187 609			(7 731)		(7 731)	179 878	193 615	202 515
Water Services Infrastructure Grant		49 250			(8 823)		(8 823)	40 427	74 250	74 250
Other		-					-	-	-	-
Provincial Government:		-	-	-	25 000	-	25 000	25 000	-	-
Infrastructure		-			25 000		25 000	25 000	-	-
Capacity Building and Other		-					-	-	-	-
Other		-					-	-	-	-
District Municipality:		-	-	-	-	-	-	-	-	-
Infrastructure		-					-	-	-	-
Capacity Building and Other		-					-	-	-	-
Other		-					-	-	-	-
Other grant providers:		-	-	-	-	-	-	-	-	-
Departmental Agencies and Accounts		-					-	-	-	-
Other		-					-	-	-	-
Total capital expenditure of Transfers and Grants		236 859	-	-	8 446	-	8 446	245 305	267 865	276 765
Total capital expenditure of Transfers and Grants		872 053	-	-	32 500	-	32 500	904 553	953 626	983 350

The total expenditure on grants amount was approved at R872.0 million, but has increased to R 904.5 million. Movements are on column “total adjustments” amounting to R 32.5 million mainly attributable from the new allocation and small portion of the roll-over of grants.

2.1. 4 Adjustments to allocations and grants made by the municipality

No adjustments were made to grants or allocations made by the municipality.

2.1.5 Adjustments to Councillor Allowances and employee benefits

This item relates to employee related costs booked in for the district and its entity. The consolidated employee related cost was budgeted at R 274.9 million but has now been adjusted down by R 13.5 million to R 262.4 million (2020: R 242.7 million).

The adjustment is mainly attributable to vacant posts arising from terminations, and those which were anticipated to be filled in the beginning of the financial year which at time they have not been filled, they will however be filled in the third quarter. The process of filling one senior post, namely Technical Services has been completed in February 2021.

The municipality resolve as one of the way to improve the cash flow status to prioritise compliance and vacant posts as this has an implication on the viability and performance of the municipality.

Supporting tables SB11 provides the expenditure on employee related costs. The total employee related costs plus councillors represent 28% of the total operating expenditure. This percentage is within the 30-40% threshold as required on Circular 71.

Remuneration of councillors.

This item relates to remuneration of Councillors, and was approved at R 9.8 million, the budget has been adjusted up by R16 thousand. Every year between December and January, a gazette on Determination of Upper Limits is issued as a guide on the increment of government officials. In the current year, the gazette has not yet been finalised, but has been indicated that it will be issued in March, in the interim, the budget is adjusted with a slight allowance should there be an increment to councillors' allowances.

2.1.6 Adjustments to service delivery and budget implementation plan

As a result of the adjustments budget, key performance indicators, targets, SDBIP, service level agreements have been adjusted to give effect on the adjustments made on the budget. These adjustments are either upward or downward depending on affected key performance area and details of this can be viewed on the SDBIP and on the District's balance scorecards. Furthermore, this means that quarter three and four targets will have to be revised.

2.1.7 Adjustments to Capital budget

The initially approved consolidated capital budget was R 235.3 million in the 2021/22 financial year; R 238.3 million and R 316.3 million for 2022/23 and 2023/24 respectively (excluding VAT) representing all categories identified as priority areas for capital expenditure during the review of the 2019-2023 IDP.

The Total capital adjusted budget for the entire MTREF is adjusted to be **R 804.3 million**.

Description	Ref	Budget Year 2021/22									Budget Year	Budget Year
		Original Budget	Prior Adjusted	Accum. Funds	Multi-year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjus.	Total Adjus.	Adjusted Budget	+1 2022/23	+2 2023/24
R thousands		A	5 A1	6 B	7 C	8 D	9 E	10 F	11 G	12 H		
Capital single-year expenditure sub-total		235 386	-	-	-	-	-	249 697	249 697	485 083	238 296	316 356
Total Capital Expenditure - Vote		235 386	-	-	-	-	-	249 697	249 697	485 083	238 296	316 356
Capital Expenditure - Functional												
Governance and administration		15 871	-	-	-	-	-	(1 079)	(1 079)	14 792	5 220	75 541
Executive and council		-	-	-	-	-	-	-	-	-	-	-
Finance and administration		15 871	-	-	-	-	-	(1 079)	(1 079)	14 792	5 220	75 541
Internal audit		-	-	-	-	-	-	-	-	-	-	-
Community and public safety		-	-	-	-	-	-	-	-	-	-	-
Community and social services		-	-	-	-	-	-	-	-	-	-	-
Sport and recreation		-	-	-	-	-	-	-	-	-	-	-
Public safety		-	-	-	-	-	-	-	-	-	-	-
Housing		-	-	-	-	-	-	-	-	-	-	-
Health		-	-	-	-	-	-	-	-	-	-	-
Economic and environmental services		2 750	-	-	-	-	-	5 575	5 575	8 325	150	150
Planning and development		2 750	-	-	-	-	-	5 575	5 575	8 325	150	150
Road transport		-	-	-	-	-	-	-	-	-	-	-
Environmental protection		-	-	-	-	-	-	-	-	-	-	-
Trading services		216 764	-	-	-	-	-	9 816	9 816	226 580	232 926	240 665
Energy sources		-	-	-	-	-	-	-	-	-	-	-
Water management		142 943	-	-	-	-	-	8 076	8 076	151 019	140 976	133 415
Waste water management		73 821	-	-	-	-	-	1 740	1 740	75 561	91 950	107 250
Waste management		-	-	-	-	-	-	-	-	-	-	-
Other		-	-	-	-	-	-	-	-	-	-	-
Total Capital Expenditure - Functional	3	235 386	-	-	-	-	-	14 311	14 311	249 697	238 296	316 356

2.1.8 Other supporting documents

2.1.8.1 Revenue collection

C.1 Revenue collection

The South African economy has been experiencing slow growth accompanied by high unemployment rate due to COVID-19 pandemic which resulted to consumers losing their jobs and high increases in energy and fuel costs. As a result, this has an impact on consumers and indirectly affect revenue collection. Although there are limiting economic factors, there was a slight improvement on the month to month collection rate. In the month of December 2021 monthly collection rate was sitting at 51% (31 Dec 2020 - 58%), with 7% decrease compared to December 2020. The year to date collection rate is 61% as at December 2021.

There is a down slope on revenue collection rate, whereas as in billing there is a huge improvement on billing of consumers. The increase on billing has an implication on the debtors' book, resulting on more consumer debtors owing the municipality, and this effectively impacts negatively on the implementation of the budget as expenditure relies so much on what is collected at the end of the each month. This also contributes to the huge increase in debtors annually, which is detrimental to the district. This would then mean that the municipality should decrease on expenditure on a monthly basis and concentrate on collection measures. This is mainly caused by the COVID-19 pandemic, that is economically affecting the country and worldwide. Some consumers have been retrenched from work and have no other source of employment. Businesses are also immensely as well have been greatly affected. However the municipality has written of a debt of R70 million during October 2021. Furthermore the municipality has waived the interest of two months to all consumers which was funded through the COVID relief. To further assist consumers, there is also an incentive scheme that is in effect for 12 months where consumers can settle their capital amount within 6 months and then have their interest reversed/waived accordingly.

Graph A

Majority of these are of a great concern

MONTH	BILLING 2021	BILLING 2022
JULY	27 371 774	30 138 059
AUGUST	23 229 244	25 308 761
SEPTEMBER	30 696 555	24 962 653
OCTOBER	14 743 453	34 687 941
NOVEMBER	37 379 507	31 267 207
DECEMBER	13 181 742	23 960 436

This table shows a trend on billing from July 2021 to December 2021 compared to July 2020 to December 2020.

Revenue collection is a priority in the District, this subject is discussed on municipal structures. There are measures that were established to turn the situation around and effectively implement such measures mainly consisting of revenue enhancement and protection, debt collection and cost containment strategies as well as how modern strategies can be maximised in the course of conducting municipal business in order to enhance operational efficiencies.

2.1.8.2 Assessment of prepaid meters

A project of installation of intelligent meters was introduced with an aim of increasing revenue collection and to reduce outstanding debtors and bad debts. Prepaid meters were previously installed with a smart device and consumers buy prepaid water as they do with electricity. It has been a year since the district initiated an assessment to determine an advanced and effective ways to gain more value from the use of the prepaid meters. A practical exercise was embarked upon in alignment to the revenue enhancement programme and monitoring of water usage within the District. The decision has shown positive results in terms of increasing billing.

2.1.8.3 Implementation of the credit control policy

The credit control is being enforced in the following manner:

- There are smses that are being sent to debtors reminding them of outstanding payments and also to effect payments.
- During July 2021 restrictions on consumer accounts in arrears commenced. There were also disconnections to accounts with illegal water supply/consumption.
- Restrictions are being enforced on all category of consumers.
- The main being government employees and also government institutions.
- Outstanding debt is being analysed and will be handed over to a debt collector for further collection,
- For government debt, National and Provincial Treasury and Provincial Co-operative Governance and Traditional Affairs (COGTA) is assisting with collection;

2.1.8.4 Data Cleansing

- The consumer data that the district has, is compared to that of the family of municipalities within the district in order to check consistency in information and billing.
- Where there are discrepancies, a physical verification is performed,
- Water and sewer accounts have been consolidated, which allows the district to disconnect or restrict when payment is not received, as well as allocation of payments to both sewer and water accounts.
- The cleansing of data will assist in improving the quality of billing information.
- Data cleansing takes place on a daily basis.

2.1.8.5 Indigent Support

The Indigent benefit is functional at IDM and the Register is growing steadily and the growth is low. Our policy grant us the right to use the Local Municipalities register.

- Economic profiling and risk analysis of households is done periodically,
- This analysis is also used to identify people who are possibly indigent and those targeted households will be visited in order to ascertain whether those people are really indigent (they will be requested to fill the application forms and submit all relevant documentation and will be assessed according to the criteria of being indigent).
- There were smses that are being sent to indigent consumers whose indigent support has expired and also which is about to expire.
- Consumers did heed the call and some do come to the office to renew and some get notified as to when it will be expiring and that when the new application process will be expected.
- There is a programme/project with Vuthela that is going to assist with indigent support in the district with the 4 LM's as well.

2.1.8.6 Municipal Entity – Enterprise iLembe

iLembe District municipality has one municipal entity, Enterprise iLembe which focuses mostly on the local economic development within the district. The budget for the municipal entity for the 2021/2022 financial year was initially appropriated at R 36.8 million, during the adjustment budget process there was no adjustment. It must be noted that the municipality has to submit a consolidated budget together with the entity. The Entity budget could be further viewed on SB tables.

2.1.8.7 Cost Containment Measures

iLembe District Municipal Council adopted a policy on cost containment in May 2015. The municipality thereafter started implementing the policy with effect from 1st of July 2015. The municipality has reprioritised its expenditure in line with the policy and this is reviewed by management on a monthly basis. Amongst the measures implemented thus far is the cutting down on travel, printing and telephone costs, overtime and at some point, filling of newly created posts were put on hold. The municipality has further taken a vigorous step in phasing out usage of consultants and insourcing most of services that were previously outsourced to consultants more particularly from engineering services function.

2.1.8.9 Municipal Standard Chart of Accounts (mSCOA)

A quarterly report is submitted to Council, EXCO and Manco meetings. The District Municipality complied with the deadline set as per the Municipal Standard Chart of Accountants regulations, being 1 July 2017. There is a continuous monthly and quarterly reporting in terms of data strings. The municipal entity successfully migrated into the same financial system the District is using as per the requirements of GRAP. Reports on progress are submitted to Council on a quarterly basis.

We are in the fifth year of implementation of mSCOA. A report is submitted to Council on a quarterly basis.

KZN PT conducted an assessment on implementation of mSCOA on the 15 business processes. In the current financial year the following modules were rolled out by Munsoft financial system for the municipality to utilize them:

- Grant Module
- New enhanced Loan Register
- PMS Module (third party)
- Caseware Financial System

The municipality continues to submit monthly and quarterly returns via the mSCOA data strings as per the regulation.

Furthermore, there is a Vuthela Programme that is assisting municipalities within the District in terms of implementation of mSCOA in relation to Balance sheet and Cash Flow budgeting. The training has been attended by Finance users and Technical Services Department in order to align the budget and the transacting against budget in terms of balance sheet and cash flow.

2.1.10 Municipal Manager's Quality Certificate

The Municipal Manager's Quality Certificate has been attached on this item.

Quality certificate

I **NG KUMALO**, municipal manager of **ILEMBE DISTRICT MUNICIPALITY**, hereby certify that the **2021/2022 Consolidated Adjustment Budget** and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Name: **NG KUMALO**

Municipal Manager of **ILEMBE DISTRICT MUNICIPALITY**



Signature: _____

Date: **25 FEBRUARY 2022**

3. CONSULTATIONS

- Chief Financial Officer & The Accounting Officer
- His Worship, the Mayor, Cllr S Gumede
- All Directorates
- The National Treasury & The Provincial Treasury
- The Budget Steering Committee

4. RESOLUTIONS/RECOMMENDATIONS

RESOLVE TO RECOMMEND THAT

4.1 That the 2021/2022 consolidated adjustments budget on table B1 to B10 as per the Municipal Budget & Reporting Regulations and its supporting documentation be approved and adopted.

Table B1- Adjustment Budget Summary

Table B2- Adjustment Budget Financial Performance (standard classification)

Table B3- Adjustment Budget Financial Performance (revenue and expenditure by municipal vote)

Table B4- Adjustment Budget Financial Performance (revenue and expenditure)

Table B5- Adjustment Capital Expenditure Budget by vote and funding

Table B6- Adjustment Budget Financial Position

Table B7- Budget Cash Flows

Table B8- Cash backed reserves/ accumulated surplus reconciliation

Table B9- Asset Management

Table B10- Basic service delivery measurement

4.2 That the Mid-Year Budget Assessment, High Level Assessment by the KwaZulu natal provincial Treasury dated be noted.

4.3 It be noted that the adjustments budget is being tabled by the Mayor in terms of section 28 (2) (a) (b) and (d), as well as section 28 (4) of the MFMA.

4.4 It be noted that the adjustments budget is fully compliant with section 28 (6) of the MFMA in that municipal tax and tariffs will not increase as a result of the adjustments budget.

- 4.5 The monthly and quarterly service delivery targets and performance indicators in the service delivery and budget implementation plan be revised according to the tabled adjustments budget.
- 4.6 The monthly and quarterly service delivery targets and performance indicators in the service delivery and budget implementation plan be revised according to the tabled adjustments budget.
- 4.7 Upon approval of the adjustments budget, Manager Budgets & Compliance ensures that, in terms of section 22 (b) of the MFMA, the adjustments budget is submitted in both printed and electronic formats to the National Treasury and Provincial Treasury.
- 4.8 Upon approval of the adjustments budget, Director Corporate Services ensures that, in terms of section 75 (1)(a) of the MFMA, the adjustments budget is published in the municipal website, and made public.
- 4.9 That the Council adopt the Audit Action Plan for the 2020/2021.

SIGNATURE OF AUTHOR


 Type text here

.....
MANAGER BUDGET & COMPLIANCE
N KUMALO

SUPPORTED / NOT SUPPORTED



.....
CHIEF FINANCIAL OFFICER
M CHANDULAL



.....
MUNICIPAL MANAGER
NG KUMALO